

**Joint Education Appropriations Subcommittee**  
**60<sup>th</sup> Legislative Session - 2007**

**Staff Presentation**

**Wednesday, January 17, 2007**

**Overview of the Montana University System Budget**

***Presentation Outcome Goal:*** That the subcommittee members understand:

- the Montana University System (MUS) organizational structure
- the Montana University System (MUS) budget structure
- the state funding budget structure for MUS
- the formulas that drive state funding levels for MUS

***Why Spend Time On This:*** To facilitate dialogue between subcommittee members and university system officials during the budget hearings. To provide foundation information that will help to facilitate decision-making during executive action on the university system budget.

**I. Montana University System – Organizational Structure**

See Attached Org Chart and See Agency Profile (pages 1-4)

**II. Montana University System – Budget Structure**

See Agency Profile (page 6)

Statewide Programs in OCHE<sup>1</sup> and Board of Regents → **Funded by House Bill 2 (HB2)**

Community College Assistance → **Funded by HB2**

Public Service/Research Agencies → **Funded by HB2**

University Educational Units → **Funded by HB 2 ... and:**

**Tuition Revenue**  
**Grants (public & private)**  
**Auxiliary Revenue (dorms, food service, etc.)**  
**Etc.**

Current Unrestricted Fund...funds the basic costs of educating students

- State funds (general fund and six mill levy revenue) = **39%** of this fund 2007 Bien.
  - This is what is known historically as the **"State % Share of the Cost of Education"**
- Tuition Revenue = approximately **60%** of this fund
- Interest and Other Revenue = the remainder

There are other separate funds to pay for other specific parts of the university educational units:

Current Restricted Fund ... mostly grants for specific functions or programs

Current Designated Fund ... fees that pay for specific services or programs

Auxiliary Fund ... residence (dorms), food service, etc.

Thus...state funding is only invested in the Current Unrestricted Fund to support basic education costs in the university educational units...the "essential educational mission" ... the decisions this subcommittee will be making will be related to the Current Unrestricted Fund

<sup>1</sup> Acronym Abbreviations:

MUS = Montana University System

OCHE = Office of the Commissioner of Higher Education

OBPP = Office of Budget and Program Planning (Executive Budget Office)

EPP = Executive Planning Process

### III. Structure of the State Budget That Funds the Montana University System

See the LFD Budget Analysis...Pages E-92 to E-196

The state budget for MUS is organized by Program...so is the LFD Budget Analysis...so is **HB2**:

#### Commissioner of Higher Education Functions (statewide programs to benefit all MUS)

- Program 1 = OCHE Administration
- Program 2 = Student Assistance (Financial Aid)
- Program 3 = Improving Teacher Quality
- Program 6 = Talent Search (Student Support Programs)
- Program 8 = Workforce Development
- Program 12 = Guaranteed Student Loan
- Program 13 = Board of Regents Administration

$$\bullet \text{ Base Year} + \text{Present Law} + \text{New Proposals} = \text{BUDGET}$$

#### Community Colleges (Dawson, Miles, and Flathead Valley Community Colleges)

- Program 4 = Community College Assistance Program

$$\bullet \text{ FTE Students} \times \text{Cost of Education} \times \text{State \% Share (policy decision made each biennium)} = \text{BUDGET}$$

→ **SB 12** proposes a new funding formula for the community colleges that looks like:

$$[(\text{FTE Students} \times \text{Variable Cost of Education per Student}) + \text{Fixed Cost of Education}] \times \text{State Percent Share (policy decision made each biennium)} = \text{BUDGET}$$

#### Medical and Workers Comp Insurance

Program 5 & 7 ... these are proprietary funds (rates are approved based on fee for service basis)

#### University Educational Units

- Program 9 = Distribution to University Campuses and Research/Public Service Agencies

- **Research/Public Service Agencies** (Extension, Ag. Experiment, Bureau of Mines, Forestry, Fire School):

$$\text{Base Year} + \text{Present Law} + \text{New Proposals} = \text{BUDGET}$$

- **University Educational Units** (University of Montana and Montana State University)

$$\text{Base Year} + (\text{Present Law} \times \text{State \% Share}) + (\text{Marginal Cost Per Student} \times \text{FTE Growth}) + \text{New Proposals} = \text{BUDGET}$$

State % Share: As discussed briefly above, historically the state % share that is used in this budget calculation has been the ratio of state funds/Current Unrestricted Fund. Through this calculation, present law cost increases were shared proportionally between state government and student tuition...under the current ratio that would mean about 39% costs to state funding and about 60% cost increases to tuition.

In the 2007 biennium, the legislature adopted a different formula for the state % share, specifically that this would be based upon the ratio of Montana resident students/all students, which resulted in an 80% state share. This was used to fund the present law adjustments at the university units in the 2007 biennium.

In the proposed executive budget for the 2009 biennium, which we will discuss in greater detail later, the executive recommends a new state % share formula, which, in addition to considering Montana resident students it would also consider the Western Undergraduate Exchange (WUE) students as part of that ratio. Under this proposed formula, the state % share in the 2009 biennium would be approximately 85%, as that is the ratio of resident students + WUE students/all students.

Therefore, the state % share formula and calculation is a matter of public policy that is **NOT** governed by statute. Rather, it is a formula calculation that may be changed by the legislature solely as part of the HB2 budget policies, which explains this evolution over the past three biennial budgets.

### Tribal College Assistance

Program 11 = Tribal College Assistance (MCA 20-25-428)

- Actual Budget Formula → **There is no specific formula**...rather an appropriation level is determined based on budget affordability that must remain below the statutory ceiling (no more than \$3,024/Non-Beneficiary student FTE attending the tribal community colleges) ...while historical guidance is considered based upon the average FTE enrollment of 311 per year

### State Also Provides Long-Range Building Funds → House Bill 5

See LFD Budget Analysis Page E-103 and Page F-1

### State Also Approves Building Debt (Bonding) → House Bill 540...in the 2005 biennium

### State Also Funds the State Pay Plan → House Bill 13

For the Montana University System, the state pay plan funds only the state % share of the cost of the pay plan at the university units (recall that the historical state % share in the 2007 biennium is 39%), which left the remaining 61% of the costs of the state pay plan to be paid by other sources (recall that tuition represents about 60% of that remainder).

The variable here, once again, is how that "state % share" is calculated...as discussed above, the historical calculation has been the proportion of state revenue to other revenue in the Current Unrestricted Fund...so that in the 2007 biennium, at 39% state share, the university system received \$12.83 million general fund for the pay plan (HB 447).

But, in HB 13, the state pay plan for the 2009 biennium, the "state % share" is calculated once again as the ratio of Montana resident students and WUE exchange students, at approximately 85%, so that the university system is scheduled to receive \$21.91 million general fund for the pay plan as proposed in HB 13, this figure only includes the 3% annual salary increases proposed in HB 13. The additional merit component of HB 13 would provide an additional \$3.15 million general fund for the university system.

Therefore, this provides a high level overview of the university system organizational structure and the budget structure, including the various formulas used to calculate the budget.

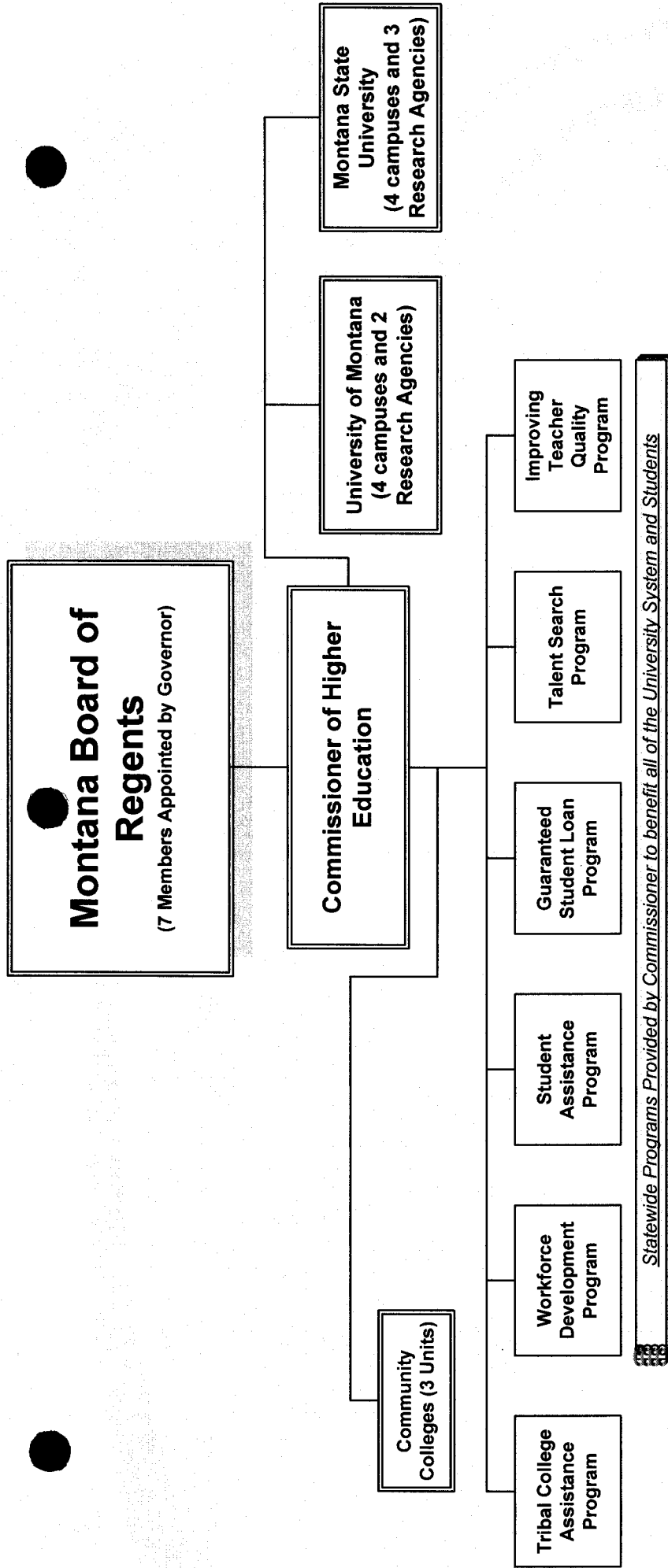
Now we will move on to the LFD budget analysis where we will go into a bit more detail about each of the budget programs.

In the LFD budget analysis, the university system starts on Page E-92...you may want to go to that page and we will page through this budget section...discussing the budget, the decision packages, and any Issues raised by legislative staff.

At the completion of this discussion, the executive budget office is here also and can respond to the issues raised and any other questions you may have.

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## Montana University System (MUS) - Organizational Structure

Montana Constitution → MUS governance to the Board of Regents (not Legislature)

State is NOT required by Constitution to fund the MUS

MT Supreme Court...Legislature cannot use budget/funding to usurp governance ("murky line")

So... Why does the state provide funding to the MUS → Public Policy Goals

12/22/2006

Source: Legislative Fiscal Division

MUS Org Chart